



Emadlangeni Municipality
Financial statements
for the year ended 30 June, 2017

Emadlangeni Municipality

(Registration number KZN253)

Financial Statements for the year ended 30 June, 2017

General Information

Legal form of entity	Local Municipality
Nature of business and principal activities	Local Government
Executive committee	Councillor L.Y. Mhlungu (Mayor) Councillor Z.H. Madi (Speaker) Councillor N. Ndlovu (Deputy Mayor) Councillor H.M. Mthethwa (Community Services Portfolio Committee Chairperson) Councillor V.C Ndlovu (MPAC Chairperson) Councillor F. Mlambo Councillor F.G.S Smook Councillor M.J. Mthethwa Councillor M.M. Booysens Councillor N.A. Madida Councillor T.S. Buthelezi
Councillors	
Grading of local authority	Grade 1
Accounting Officer	Mr L.C.T. Nkosi (Acting)
Chief Finance Officer (CFO)	W. Mtusva (Acting)
Registered office	34 Voor Street Utrecht 2980
Postal address	P.O. Box 11 Utrecht 2980
Bankers	Standard Bank
Auditors	Auditor General SA

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Financial Statements for the year ended 30 June, 2017

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
UIF	Unemployment Insurance Fund
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
LED	Local Economic Development
HDF	Housing Development Fund
IAS	International Accounting Standards
CIGFARO	Chartered Institute of Government Finance, Audit and Risk Officers
IPSAS	International Public Sector Accounting Standards
SDL	Skills Development Fund
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
FMG	Finance Management Grant
INEP	Intergrated National Electricity Programme Grant
EPWP	Expanded Public Works Programme Grant

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Financial Statements for the year ended 30 June, 2017

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act no 56 of 2003, to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or misstatement in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June, 2018 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the income from services, rates and grants for continued funding of operations. The financial statements are prepared on the basis that the municipality is a going concern and that the Council has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, the accounting officer is supported by the municipality's audit committee, internal and external auditors.

The external auditors are responsible for independently auditing and reporting on the municipality's financial statements. The financial statements were examined by the municipality's external auditors and their report is presented separately.

The financial statements set out on pages 4 to 61, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August, 2017 and were signed on by:

L.C.T. Nkosi
Acting Municipal Manager

Emadlangeni Municipality

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Statement of Financial Position as at 30 June, 2017

Figures in Rand	Note(s)	2017	2016
Assets			
Current Assets			
Receivables from exchange transactions	10&13	59,599	147,030
Receivables from non-exchange transactions	13	5,224,019	3,981,988
VAT receivable	11	5,922,860	4,787,679
Consumer debtors	12	9,894,671	8,695,284
Financial Asset	9	321,611	300,000
Cash and cash equivalents	14	14,827,721	21,028,481
		36,250,481	38,940,462
Non-Current Assets			
Investment property	3	42,518,270	43,202,739
Property, plant and equipment	4	107,326,144	91,854,633
Intangible assets	5	877,058	304,315
Heritage assets	6	1,190,581	1,190,582
		151,912,053	136,552,269
Total Assets		188,162,534	175,492,731
Liabilities			
Current Liabilities			
Payables from exchange transactions	18	13,441,486	10,183,053
Taxes and transfers payable (non-exchange)	19	649,309	490,335
Consumer deposits	20	165,705	164,487
Employee benefit obligation	8	245,000	19,000
Unspent conditional grants and receipts	15	6,218,015	2,707,225
Provisions	16	2,240,142	1,771,507
Current portion of long term loan	17	68,879	61,976
		23,028,536	15,397,583
Non-Current Liabilities			
Employee benefit obligation	8	2,167,350	2,840,000
Provisions	16	8,382,892	7,975,560
Long term loan	17	676,967	745,846
		11,227,209	11,561,406
Total Liabilities		34,255,745	26,958,989
Net Assets		153,906,789	148,533,742
Accumulated surplus		153,906,789	148,533,742

Emadlangeni Municipality

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Financial Statements for the year ended 30 June, 2017

Statement of Financial Performance

Figures in Rand	Note(s)	2017	2016
Revenue			
Revenue from exchange transactions			
Service charges	22	13,770,776	13,223,022
Rental of facilities and equipment	23	970,172	978,470
Licences and permits		828,320	917,124
Other income	24	546,556	2,096,769
Interest received - investment	26	1,428,216	1,655,259
Total revenue from exchange transactions		17,544,040	18,870,644
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	27	13,560,777	13,771,480
Property rates - penalties imposed	27	2,056,008	2,176,977
Transfer revenue			
Government grants & subsidies	28	49,021,216	47,868,825
Fines, Penalties and Forfeits		355,702	445,371
Total revenue from non-exchange transactions		64,993,703	64,262,653
Total revenue	21	82,537,743	83,133,297
Expenditure			
Employee related costs	29	(28,011,929)	(21,306,976)
Remuneration of councillors	30	(3,017,324)	(1,859,268)
Depreciation and amortisation	32	(8,289,013)	(6,696,554)
Impairment loss/ Reversal of impairments	33	(8,072)	(320,269)
Finance costs	34	(346,790)	(336,204)
Debt Impairment	35	(1,466,906)	(1,006,990)
Repairs and maintenance	31	(1,910,637)	(4,994,476)
Bulk purchases	36	(11,452,059)	(10,904,904)
Contracted services	37	(4,134,563)	(4,177,340)
General Expenses	38	(19,127,547)	(17,294,075)
Total expenditure		(77,764,840)	(68,897,056)
Operating surplus			
Gain (loss) on scrapped assets		4,772,903	14,236,241
Actuarial gains/losses	8	3,688	(246,972)
		595,000	(376,537)
Surplus for the year		598,688	(623,509)
Surplus for the year		5,371,591	13,612,732

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Financial Statements for the year ended 30 June, 2017

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 1 July, 2015	134,921,010	134,921,010
Changes in net assets		
Surplus for the year	13,612,732	13,612,732
Total changes	13,612,732	13,612,732
Balance at 1 July, 2016	148,533,760	148,533,760
Changes in net assets		
Assets correction	1,438	1,438
Net income (losses) recognised directly in net assets	1,438	1,438
Surplus for the year	5,371,591	5,371,591
Total recognised income and expenses for the year	5,373,029	5,373,029
Total changes	5,373,029	5,373,029
Balance at 30 June, 2017	153,906,789	153,906,789

Note(s)

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Financial Statements for the year ended 30 June, 2017

Cash Flow Statement

Figures in Rand	Note(s)	2017	2016
Cash flows from operating activities			
Receipts			
Sale of goods and services		28,111,814	26,325,182
Grants		52,532,000	48,683,000
Interest income		1,428,216	1,655,259
Other receipts		1,514,578	3,089,263
		83,586,608	79,752,704
Payments			
Employee and councillors remuneration costs		(31,007,268)	(23,112,143)
Suppliers		(34,799,271)	(36,667,506)
Finance costs		(346,790)	(336,204)
		(66,153,329)	(60,115,853)
Net cash flows from operating activities	41	17,433,279	19,636,851
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(22,517,349)	(25,592,687)
Purchase of other intangible assets	5	(1,033,103)	(349,407)
Purchase of financial assets		(21,611)	-
Net cash flows from investing activities		(23,572,063)	(25,942,094)
Cash flows from financing activities			
Movement in long term loan		(61,976)	(129,502)
Net increase/(decrease) in cash and cash equivalents		(6,200,760)	(6,434,745)
Cash and cash equivalents at the beginning of the year		21,028,481	27,463,226
Cash and cash equivalents at the end of the year	14	14,827,721	21,028,481

Emadlangeni Municipality

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Statement of Comparison of Budget and Actual Amounts

Budget on Accruals Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	16,543,658	25,449	16,569,107	13,770,776	(2,798,331)	Refer to Note 61.
Rental of facilities and equipment	2,975,194	(650,000)	2,325,194	970,172	(1,355,022)	Refer to Note 61
Licences and permits	1,536,575	300	1,536,875	828,320	(708,555)	Refer to Note 61
Other income	9,967,764	(5,890,540)	4,077,224	588,149	(3,489,075)	Refer to Note 61
Interest received - investment	1,553,975	(200,000)	1,353,975	1,428,216	74,241	Refer to Note 61
Total revenue from exchange transactions	32,577,166	(6,714,791)	25,862,375	17,585,633	(8,276,742)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	15,031,851	-	15,031,851	13,560,777	(1,471,074)	Refer to Note 61
Property rates - penalties imposed	2,797,982	-	2,797,982	2,056,008	(741,974)	
Transfer revenue						
Government grants & subsidies	55,289,000	(957,000)	54,332,000	49,021,216	(5,310,784)	Refer to Note 61
Fines, Penalties and Forfeits	351,936	100,629	452,565	355,702	(96,863)	Refer to Note 61
Total revenue from non-exchange transactions	73,470,769	(856,371)	72,614,398	64,993,703	(7,620,695)	
Total revenue	106,047,935	(7,571,162)	98,476,773	82,579,336	(15,897,437)	
Expenditure						
Employee related costs	(26,780,133)	(1,310,867)	(28,091,000)	(28,011,929)	79,071	Refer to Note 61
Remuneration of councillors	(2,983,934)	(302,066)	(3,286,000)	(3,017,324)	268,676	
Depreciation and amortisation	(5,485,036)	1,193,036	(4,292,000)	(8,289,013)	(3,997,013)	Refer to Note 61
Impairment loss/ Reversal of impairments	(322,580)	100,000	(222,580)	(8,072)	214,508	
Finance costs	(101,000)	-	(101,000)	(346,790)	(245,790)	Refer to Note 61
Debt impairment	(2,415,840)	900,000	(1,515,840)	(1,466,906)	48,934	
Repairs and maintenance	(5,393,477)	2,134,477	(3,259,000)	(1,910,637)	1,348,363	Refer to Note 61
Bulk purchases	(12,198,707)	-	(12,198,707)	(11,452,059)	746,648	
Contracted services	(1,100,000)	(3,243,000)	(4,343,000)	(4,134,563)	208,437	
Grant Expenditure	(4,699,240)	4,699,240	-	-	-	

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Statement of Comparison of Budget and Actual Amounts

Budget on Accruals Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
General Expenses	(11,854,927)	(7,870,073)	(19,725,000)	(19,127,547)	597,453	
Total expenditure	(73,334,874)	(3,699,253)	(77,034,127)	(77,764,840)	(730,713)	
Operating surplus	32,713,061	(11,270,415)	19,725,308	4,814,496	(16,628,150)	
Loss on scrapped of Assets	-	-	-	3,688	3,688	
Actuarial gains/losses	-	(200,000)	(200,000)	595,000	795,000	
	-	(200,000)	(200,000)	598,688	798,688	
Surplus before taxation	32,713,061	(11,470,415)	21,242,646	5,413,184	(15,829,462)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	32,713,061	(11,470,415)	21,242,646	5,413,184	(15,829,462)	

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Statement of Comparison of Budget and Actual Amounts

Budget on Accruals Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Receivables from exchange transactions	1,200,000	-	1,200,000	59,599	(1,140,401)	
Receivables from non-exchange transactions	-	-	-	5,224,019	5,224,019	
VAT receivable	-	-	-	5,922,860	5,922,860	
Consumer debtors	22,670,000	-	22,670,000	9,894,671	(12,775,329)	
Financial Asset	300,000	-	300,000	321,611	21,611	
Cash and cash equivalents	29,932,000	(8,879,000)	21,053,000	14,827,721	(6,225,279)	
	54,102,000	(8,879,000)	45,223,000	36,250,481	(8,972,519)	
Non-Current Assets						
Investment property	41,236,000	-	41,236,000	42,518,271	1,282,271	
Property, plant and equipment	109,116,000	9,124,000	118,240,000	107,326,144	(10,913,856)	
Intangible assets	159,000	1,489,000	1,648,000	877,058	(770,942)	
Heritage assets	1,490,000	-	1,490,000	1,190,581	(299,419)	
	152,001,000	10,613,000	162,614,000	151,912,054	(10,701,946)	
Total Assets	206,103,000	1,734,000	207,837,000	188,162,535	(19,674,465)	
Liabilities						
Current Liabilities						
Payables from exchange transactions	6,337,000	-	6,337,000	13,441,487	7,104,487	
Taxes and transfers payable (non-exchange)	-	-	-	649,309	649,309	
Consumer deposits	189,000	-	189,000	165,705	(23,295)	
Employee benefit obligation	-	-	-	245,000	245,000	
Unspent conditional grants and receipts	-	-	-	6,218,015	6,218,015	
Provisions	-	-	-	2,240,142	2,240,142	
Current portion of long term loan	52,000	-	52,000	68,879	16,879	
	6,578,000	-	6,578,000	23,028,537	16,450,537	
Non-Current Liabilities						
Employee benefit obligation	1,707,000	-	1,707,000	2,167,350	460,350	
Provisions	8,273,000	19,000	8,292,000	8,382,892	90,892	
Long term loan	703,000	-	703,000	676,967	(26,033)	
	10,683,000	19,000	10,702,000	11,227,209	525,209	
Total Liabilities	17,261,000	19,000	17,280,000	34,255,746	16,975,746	
Net Assets	188,842,000	1,715,000	190,557,000	153,906,789	(36,650,211)	

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Statement of Comparison of Budget and Actual Amounts

Budget on Accruals Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<hr/>						
Figures in Rand						
<hr/>						
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	188,842,000	1,715,000	190,557,000	153,906,790	(36,650,210)	

Emadlangeni Municipality

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Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2017											
Financial Performance											
Property rates	17,829,833	-	17,829,833	-		17,829,833	15,616,785		(2,213,048)	88 %	88 %
Service charges	16,543,658	25,449	16,569,107	-		16,569,107	13,770,776		(2,798,331)	83 %	83 %
Investment revenue	1,553,975	(200,000)	1,353,975	-		1,353,975	1,428,216		74,241	105 %	92 %
Transfers recognised - operational	28,376,000	(957,000)	27,419,000	-		27,419,000	27,419,000		-	100 %	97 %
Other own revenue	14,831,469	(6,439,611)	8,391,858	-		8,391,858	3,341,031		(5,050,827)	40 %	23 %
Total revenue (excluding capital transfers and contributions)	79,134,935	(7,571,162)	71,563,773	-		71,563,773	61,575,808		(9,987,965)	86 %	78 %
Employee costs	(26,780,133)	(1,310,867)	(28,091,000)	-	-	(28,091,000)	(28,011,929)	-	79,071	100 %	105 %
Remuneration of councillors	(2,983,934)	(302,066)	(3,286,000)	-	-	(3,286,000)	(3,017,324)	-	268,676	92 %	101 %
Debt impairment	(2,415,840)	900,000	(1,515,840)			(1,515,840)	(1,466,906)	-	48,934	97 %	61 %
Depreciation and asset impairment	(5,807,616)	1,293,036	(4,514,580)			(4,514,580)	(8,297,085)	-	(3,782,505)	184 %	143 %
Finance charges	(101,000)	-	(101,000)	-	-	(101,000)	(346,790)	-	(245,790)	343 %	343 %
Materials and bulk purchases	(12,198,707)	-	(12,198,707)	-	-	(12,198,707)	(11,452,059)	-	746,648	94 %	94 %
Transfers and grants	(4,699,240)	4,699,240	-	-	-	-	-	-	-	DIV/0 %	- %
Other expenditure	(18,348,404)	(8,978,596)	(27,327,000)	-	-	(27,327,000)	(25,172,747)	-	2,154,253	92 %	137 %
Total expenditure	(73,334,874)	(3,699,253)	(77,034,127)	-	-	(77,034,127)	(77,764,840)	-	(730,713)	101 %	106 %
Surplus/(Deficit)	5,800,061	(11,270,415)	(5,470,354)	-		(5,470,354)	(16,189,032)		(10,718,678)	296 %	(279)%

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Financial Statements for the year ended 30 June, 2017

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	26,913,000	-	26,913,000	-		26,913,000	21,602,216		(5,310,784)	80 %	80 %
Surplus (Deficit) after capital transfers and contributions	32,713,061	(11,270,415)	21,442,646	-		21,442,646	5,413,184		(16,029,462)	25 %	17 %
Surplus/(Deficit) for the year	32,713,061	(11,270,415)	21,442,646	-		21,442,646	5,413,184		(16,029,462)	25 %	17 %

Capital expenditure and funds sources

Total capital expenditure	25,222,000	2,174,472	27,396,472	-	27,396,472	20,491,083			(6,905,389)	75 %	81 %
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Emadlangeni Municipality

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Financial Statements for the year ended 30 June, 2017

Accounting Policies

1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act no 56 of 2003.

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

Trade receivables and loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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1.4 Investment property (continued)

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	2-75 years

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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1.5 Property, plant and equipment (continued)

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	10-30 years
Plant and machinery	Straight line	2-10 years
Furniture and Office equipment	Straight line	2-7 years
Motor vehicles	Straight line	2-8 years
Computer equipment	Straight line	2-8 years
Community Assets	Straight line	2-45 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

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Accounting Policies

1.5 Property, plant and equipment (continued)

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

Assets Under Construction

The cost of property, plant and equipment under construction as of the reporting date is recognised as an asset if:

- it is probable that future economic benefits or service potential associated with the item(s) will flow to the municipality, and
- the cost or fair value of the item(s) can be measured reliably.

Assets under construction consists of expenditure for the construction of buildings, certain land improvements, infrastructure assets and networks and any other capital projects that are under construction as of the reporting date. The expenditure comprise direct labour, materials and overheads, if appropriate.

When assets under construction is completed and certificates of completion issued, they are transferred to the appropriate asset class.

Assets under construction are not depreciated as they are not in a condition necessary for it to be capable of operating in a manner intended by management

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

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Accounting Policies

1.7 Intangible assets (continued)

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software, other	Straight line	1-5 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.8 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

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Accounting Policies

1.8 Heritage assets (continued)

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

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Accounting Policies

1.8 Heritage assets (continued)

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.9 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Loans and receivables
- Financial liabilities
- Cash and cash equivalents

Classification depends on the purpose for which the financial instruments were obtained/incurred and takes place at initial recognition.

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Consumer debtors	Financial asset measured at amortised cost
Financial asset	Financial asset measured at amortised cost
Cash and Cash equivalents	Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Taxes and transfers payable (non-exchange)	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Unspent conditional grants	Financial liability measured at amortised cost
long term loan	Financial liability measured at amortised cost

Initial recognition

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instrument

Subsequent measurement of financial assets and financial liabilities

The Municipality measures all financial assets and financial liabilities after initial recognition using the following category:

- Financial instruments at amortised cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

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Accounting Policies

1.10 Leases (continued)

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

1.11 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

1.12 Employee benefits

Employee benefits are all forms of consideration given by the entity in exchange for service rendered by employees.

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1.12 Employee benefits (continued)

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- The municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the Municipality during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

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1.12 Employee benefits (continued)

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which the municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Multi-employer plans and/or State plans and/or Composite social security programmes

The municipality classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the municipality accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the municipality account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the municipality account for the plan as if it was a defined contribution plan.

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Accounting Policies

1.12 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

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1.12 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other post retirement obligations

The municipality provides post-retirement health care benefits to some retirees.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.13 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

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1.13 Provisions and contingencies (continued)

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

1.14 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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Accounting Policies

1.15 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.16 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

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Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

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Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.17 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.18 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.19 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

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Accounting Policies

1.21 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.22 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget covers the fiscal period from 2015/07/01 to 2016/06/30.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

The Statement of comparative and actual information has been included in the financial statements as the recommended disclosure when the financial statements and the budget are on the same basis of accounting as determined by National Treasury.

1.23 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

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Accounting Policies

1.24 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.25 Gratuities

The municipality provides gratuities for qualifying staff members in terms of the relevant conditions of employment. The expenditure is recognised in the statement of financial performance when the gratuity is paid.

1.26 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

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Financial Statements for the year ended 30 June, 2017

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2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 108: Statutory Receivables	1 April, 2016	The impact of the is not material.
• GRAP 17 (as amended 2015): Property, Plant and Equipment	1 April, 2016	The adoption of this has not had a material impact on the results of the Municipality, but has resulted in more disclosure than would have previously been provided in the financial statements
• GRAP 16 (as amended 2015): Investment Property	1 April, 2016	The adoption of this has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the financial statements

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

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2. New standards and interpretations (continued)

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

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3. Investment property

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	51,888,434	(9,370,164)	42,518,270	51,888,434	(8,685,695)	43,202,739

Reconciliation of investment property - 2017

	Opening balance	Depreciation	Total
Investment property	43,202,739	(684,469)	42,518,271

Reconciliation of investment property - 2016

	Opening balance	Depreciation	Total
Investment property	43,888,592	(685,853)	43,202,739

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Amounts recognised in surplus or deficit

Rental revenue from Investment property	290,806	308,265
From Investment property that generated rental revenue		
Direct operating expenses (excluding repairs and maintenance)	2,546,318	2,080,104
Repairs and maintenance	80,227	127,777
	2,626,545	2,207,881

4. Property, plant and equipment

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	1,616,765	-	1,616,765	1,616,765	-	1,616,765
Buildings	19,330,363	(8,084,061)	11,246,302	19,303,914	(7,383,928)	11,919,986
Plant and machinery	3,636,455	(1,761,662)	1,874,793	3,506,609	(1,400,525)	2,106,084
Furniture & Office Equipment	2,541,539	(1,531,577)	1,009,962	1,824,154	(1,307,106)	517,048
Motor vehicles	5,125,541	(2,369,079)	2,756,462	5,119,540	(1,806,151)	3,313,389
Computer equipment	1,849,126	(1,068,438)	780,688	1,382,795	(884,720)	498,075
Infrastructure	119,228,981	(38,037,786)	81,191,195	98,171,092	(33,295,830)	64,875,262
Community	8,582,940	(1,732,963)	6,849,977	8,582,940	(1,574,916)	7,008,024
Total	161,911,710	(54,585,566)	107,326,144	139,507,809	(47,653,176)	91,854,633

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4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Reclassification	Disposals	Work in Progress	Other changes, movements	Depreciation	Impairment loss	Total
Land	1,616,765	-	-	-	-	-	-	-	1,616,765
Buildings	11,919,986	26,449	1	-	-	-	(700,134)	-	11,246,302
Plant and machinery	2,106,084	107,242	6,745	-	-	13,760	(351,219)	(7,819)	1,874,793
Furniture and Office Equipment	517,048	621,464	(5,587)	3,482	-	86,740	(197,238)	(253)	1,009,962
Motor vehicles	3,313,389	-	1	36	-	-	(556,964)	-	2,756,462
Computer equipment	498,075	440,311	69	8,578	-	793	(167,138)	-	780,688
Infrastructure	64,875,262	-	(1,229)	(8,408)	21,321,883	-	(4,996,313)	-	81,191,195
Community	7,008,024	-	-	-	-	-	(158,046)	-	6,849,977
	91,854,633	1,195,466	-	3,688	21,321,883	101,293	(7,127,052)	(8,072)	107,326,144

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Work in progress	Other changes, movements	Depreciation	Impairment loss	Total
Land	1,616,765	-	-	-	-	-	-	1,616,765
Buildings	14,134,852	101,051	-	-	-	(699,151)	-	11,919,986
Plant and machinery	2,150,485	129,428	-	-	147,533	(314,315)	(7,047)	2,106,084
Furniture and office equipment	458,618	149,128	(96)	-	30,788	(114,537)	(6,853)	517,048
Motor vehicles	1,111,207	2,692,511	(166,426)	-	10,526	(334,428)	(6,888)	3,313,389
Office equipment	493,521	123,280	(363)	-	6,660	(118,135)	-	498,075
Infrastructure	50,696,974	148,698	(72,222)	22,038,324	1,229	(3,865,761)	(62)	64,875,262
Community	2,886,302	210,267	(7,865)	-	-	(152,598)	-	7,008,024
	73,548,724	3,554,363	(246,972)	22,038,324	196,736	(5,598,925)	(20,850)	91,854,633

Depreciation rates

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4. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2017

	Included within Other PPE	Total
Opening balance	35,419,157	35,419,157
Additions/capital expenditure	21,321,882	21,321,882
Transferred to infrastructure	(24,716,424)	(24,716,424)
	32,024,615	32,024,615

Assets under construction

Roads and storm water Infrastructure	3,881,451	3,881,451
Electricity infrastructure	24,071,246	24,071,246
Community Assets	4,071,918	4,071,918
	32,024,615	32,024,615

The municipality has faced challenges in completing the rural electrification project(carrying value R24 071 246). Disputes with farm owners, relating to way leaves on the privately owned land has been a stumbling block. This has contributed negatively to the rural electricity programme progress. Once connections are complete the Infrastructure will be handed over to Eskom.

Funding constraints have been faced on the construction of Bensdorp Sports field(Carrying value R4 071 918). When the project was initiated it was envisaged that funding will come from the Department of Sports and Recreation as well as from the Municipal Infrastructure Grant(MIG). However, the MIG funds have not materialised as yet hence the long time it is taking to complete the Sportsfield.

Reconciliation of Work-in-Progress 2016

	Included within Other PPE	Total
Opening balance	18,038,453	18,038,453
Additions/capital expenditure	22,038,324	22,038,324
Transferred to Infrastructure	(4,657,620)	(4,657,620)
	35,419,157	35,419,157

Assets under construction

Roads and storm water Infrastructure	12,091,096	12,091,096
Electricity infrastructure	19,256,144	19,256,144
Community Assets	4,071,918	4,071,918
	35,419,158	35,419,158

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

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5. Intangible assets

	2017		2016	
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Cost / Valuation	Accumulated amortisation and accumulated impairment
Computer software, other	2,731,696	(1,854,638)	877,058	1,698,594
				(1,394,279) 304,315

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
	304,315	1,033,102	(460,358)	877,058
Computer software, other				

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
	366,674	349,414	(411,773)	304,315
Computer software, other				

6. Heritage assets

	2017		2016	
	Cost / Valuation	Accumulated impairment losses	Cost / Valuation	Accumulated impairment losses
Historical buildings	1,490,000	(299,419)	1,190,581	1,490,001
				(299,419) 1,190,582

Reconciliation of heritage assets 2017

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6. Heritage assets (continued)

	Opening balance	Total
Historical buildings	1,190,582	1,190,581

Reconciliation of heritage assets 2016

	Opening balance	Impairment losses recognised	Total
Historical buildings	1,490,001	(299,419)	1,190,582

7. Other financial assets

At amortised cost

Housing Debtors	-	201,463
The department of housing provided Emadlangeni Municipality with a loan to finance housing selling scheme undertaken by the municipality, the loan was extinguished on 1 April 1998 and transferred to the Housing Development Fund in terms of the Housing Act No. 107 of 1997. The initial contract states that residents who benefited from the housing scheme will pay a deposit of R300, the capital must be paid to Emadlangeni Municipality with 360 months together with interest of 13.5% per annum. The monthly payments will be determined as 11% of the buyer's salary. The buyer has an option to purchase the house after 3 years or once 10% of the capital amount has been paid and the buyer provides		
Impairments-Refer to note 11	-	201,463
	-	(201,463)
	-	-

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8. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

Carrying value

Opening balance	(2,859,000)	(2,733,000)
Current service cost	(83,000)	(75,000)
Interest cost	(261,000)	(244,000)
Benefits paid	195,650	569,537
Actuarial gain/(loss)	595,000	(376,537)
	(2,412,350)	(2,859,000)
Non-current liabilities	(2,167,350)	(2,840,000)
Current liabilities	(245,000)	(19,000)
	(2,412,350)	(2,859,000)

Health care benefits

Opening balance	(1,971,000)	(1,931,000)
Interest cost	(172,000)	(170,000)
Benefits paid	159,029	176,000
Actuarial gain/(loss)	493,000	(46,000)
	(1,490,971)	(1,971,000)

Long Service Awards Liability

Opening balance	(888,000)	(802,000)
Current service cost	(83,000)	(75,000)
Interest cost	(89,000)	(74,000)
Benefits paid	36,621	393,537
Actuarial gain/(loss)	102,000	(330,537)
	(921,379)	(888,000)

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Figures in Rand	2017	2016
8. Employee benefit obligations (continued)		
Net expense recognised in the statement of financial performance		
Current service cost	83,000	75,000
Interest cost	261,000	244,000
Actuarial (gains) losses	(595,000)	376,537
	(251,000)	695,537

Health Care Benefits

Interest cost	172,000	170,000
Actuarial (gain)/loss	(493,000)	46,000
	(321,000)	216,000

Long Service Awards Liability

Current service cost	83,000	75,000
Interest cost	89,000	74,000
Actuarial (gain)/loss	(102,000)	330,537
	70,000	479,537

Health Care Benefits

The municipality provides certain post -retirement health care benefits by funding the medical aid contributions of specific retired members of the municipality, no other retirees are entitled to this benefit. According to the rules of the Medical Aid Fund with which the municipality is associated, a member is entitled to remain a continued member of such a medical fund on retirement and the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these specific retirees. No other post-retirement benefits are provided to these retirees.

The most recent actuarial valuations of the present value of the unfunded defined obligation was carried out as at 30 June 2017 by One Pangea Financial, a member of Actuarial Society of South Africa. The present value of the defined obligation, and related current service cost and past service cost were measured using the projected unit credit method. No other post-retirement medical benefits are provided by the Municipality

Emadlangeni Municipality

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Financial Statements for the year ended 30 June, 2017

Notes to the Financial Statements

Figures in Rand	2017	2016
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8. Employee benefit obligations (continued)

Key assumptions used

Discount Rate and Net Effective Discount Rate -Yield Curve and Yield Curve based respectively(2015/16)

CPI (Consumer Price Inflation)-Difference between nominal and yield curves(2015/16)

Medical Aid Contribution Inflation- CPI+1%(2015/16)

Assumptions used at the reporting date:

Discount rates used	8.89 %	- %
Net discount rate	1.60 %	- %
Expected increase in healthcare costs	7.17 %	- %
Consumer price index	6.17 %	- %

Unfunded accrued Liability is R1 490 971

Fully accrued retirement Age - 63 years

Normal retirement Age - 65 years

Mortality Rate -Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry. Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumption was made about additional mortality or health care costs due to HIV /AIDS.

Long Service Awards Liability

A long service award is granted to municipal employees after the completion of fixed periods of continuous service with the municipality. The provision represents an estimation an estimation of the awards to which employees in the service of the municipality may become entitled to in future, based on an actuarial valuation performed.

The most recent present value of the defined benefit obligation was carried out at 30 June 2017. The present value of the defined benefit obligation, and the related current service cost were measured using the Projected Unit Credit Method.

At year end 93, (2016) 73 employees were eligible for Long -service awards.

Discount rate	8.55%
CPI (Consumer Price Inflation)	5.84%
Salary increase rate	6.84%
Net discount rate	1.60%

Average Retirement Age -The average retirement age for all active employees was assumed to be 65 years. This assumption implicitly allows for ill-health and early retirements.

Normal Retirement Age -The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Mortality Rates -Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry:

Unfunded Accrued Liability is R921 000

9. Financial Assets

Fixed deposit account	321,611	300,000
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The 12 months fixed deposit is a surety for the DBSA loan in accordance with the terms of the loan agreement.

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Financial Statements for the year ended 30 June, 2017

Notes to the Financial Statements

Figures in Rand	2017	2016
10. Receivables from exchange transactions		
Eskom Deposit	55,114	55,114
Prepayment	-	49,478
Other receivables	4,485	42,438
	59,599	147,030
11. VAT receivable		
VAT	5,922,860	4,787,679
Emadlangeni Municipality is on a cash basis for VAT purposes. The municipality is significantly grant funded. The Input VAT therefore, exceeds the output VAT resulting in a receivable.		
12. Consumer debtors		
Gross balances		
Electricity	9,386,755	9,007,255
Refuse	2,840,843	2,687,804
Other (specify)	741,071	1,226,593
	12,968,669	12,921,652
Less: Allowance for impairment		
Electricity	(2,082,421)	(1,475,962)
Refuse	(854,276)	(2,269,317)
Other (specify)	(137,301)	(481,089)
	(3,073,998)	(4,226,368)
Net balance		
Electricity	7,304,334	7,531,293
Refuse	1,986,567	418,487
Other (specify)	603,770	745,504
	9,894,671	8,695,284
Electricity		
Current (0 -30 days)	5,113,034	5,271,906
31 - 60 days	1,460,867	1,129,693
61 - 90 days	365,216	753,129
91 - 120 days	365,217	376,565
	7,304,334	7,531,293
Refuse		
Current (0 -30 days)	1,291,268	272,017
31 - 60 days	397,313	83,697
61 - 90 days	198,657	41,849
91 - 120 days	99,328	20,924
	1,986,566	418,487
Other (specify)		
Current (0 -30 days)	452,828	559,128
31 - 60 days	150,943	186,376
	603,771	745,504

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Notes to the Financial Statements

Figures in Rand	2017	2016
12. Consumer debtors (continued)		
Reconciliation of allowance for impairment		
Balance at beginning of the year	(16,176,806)	(16,607,526)
Contributions to allowance	(1,453,423)	(819,480)
long term debtors(Refer to note 7)	-	201,463
Debt written off	323,668	1,250,200
Non exchange debtors-Impairment(Refer to note 13)	14,232,563	11,748,975
	(3,073,998)	(4,226,368)

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Consumer debtors impaired

As of 30 June, 2017, consumer debtors(exchange and non exchange debtors) of R R17 306 561 (2016: R16 176 806 -) were impaired and provided for.

The amount of the provision was R - R17 306 561 as of 30 June, 2017 (2016: RR16 176 806 -).

The ageing of these debtors is as follows:

Over 6 months	17,306,561	16,176,806
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Reconciliation of allowance for impairment of consumer debtors

Opening balance	16,176,806	16,607,526
Allowance for impairment	1,453,423	819,480
Amounts written off as uncollectible	(323,668)	(1,250,200)
	17,306,561	16,176,806

13. Receivables from non-exchange transactions

Gross balances

Consumer debtors - Rates	19,189,267	15,666,165
Non exchange receivable - Traffic fines	693,245	477,245
	19,882,512	16,143,410

Less: Allowance for impairment

Consumer debtors - Rates	(14,232,563)	(11,748,975)
Non exchange receivables - Traffic fines	(425,930)	(412,447)
	(14,658,493)	(12,161,422)

Net balance

Consumer debtors - Rates	4,956,704	3,917,190
Non exchange receivables - Traffic fines	267,315	64,798
	5,224,019	3,981,988

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Financial Statements for the year ended 30 June, 2017

Notes to the Financial Statements

Figures in Rand	2017	2016
13. Receivables from non-exchange transactions (continued)		
Rates		
Current (0 -30 days)	3,717,528	2,742,033
31 - 60 days	743,506	587,579
61 - 90 days	247,835	391,719
91 - 120 days	247,835	-
121 - 365 days	-	195,859
	4,956,704	3,917,190
Other (specify)		
91 - 120 days	267,315	64,798

Summary of debtors by customer classification

Consumers			
Current (0 -30 days)	3,717,528	2,742,033	
31 - 60 days	743,506	587,579	
61 - 90 days	247,835	391,719	
91 - 120 days	247,835	195,859	
	4,956,704	3,917,190	

14. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	583	583
Bank balances	286,131	6,645,036
Short-term deposits	14,541,007	14,382,862
	14,827,721	21,028,481

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June, 2017	30 June, 2016	30 June, 2015	30 June, 2017	30 June, 2016	30 June, 2015
Standard Bank of South Africa -	286,147	6,645,112	8,344,726	286,131	6,645,036	8,344,650
Public sector current account - 06-010-0001						

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Repair of 376 Houses	903,525	903,525
FMG Grant	6	-
INEG	5,314,484	1,803,700
	6,218,015	2,707,225

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Financial Statements for the year ended 30 June, 2017

Notes to the Financial Statements

Figures in Rand	2017	2016
15. Unspent conditional grants and receipts (continued)		
Movement during the year		
Balance at the beginning of the year	2,707,225	1,893,050
Additions during the year	28,960,000	27,666,000
Income recognition during the year	(25,449,210)	(26,851,825)
	6,218,015	2,707,225

These amounts are invested in a ring-fenced investment until utilised. All the grants are cash backed refer to Note 14

The unspent grants are made up of the Integrated National Electrification Programme (INEP) Grant and the 376 Houses Disaster Storm Fund

The conditions for INEP Grant is specific for installation of electricity infrastructure to reduce backlog on un-electrified households. Minimum size of supply is 1.2 KVA, After Diversity Maximum Demand(ADMD), 20 Amp per household connection. The 376 Houses was intially earmarked for relief to the households affected by a disaster, subsequently permission was granted to use the funds for renovations.

16. Provisions

Reconciliation of provisions - 2017

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	7,975,560	407,332	-	8,382,892
Leave pay provision	1,771,507	919,988	(451,353)	2,240,142
	9,747,067	1,327,320	(451,353)	10,623,034

Reconciliation of provisions - 2016

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	7,505,257	470,303	-	7,975,560
Leave pay provision	1,467,246	638,015	(333,754)	1,771,507
	8,972,503	1,108,318	(333,754)	9,747,067
Non-current liabilities			8,382,892	7,975,560
Current liabilities			2,240,142	1,771,507
			10,623,034	9,747,067

Environmental rehabilitation provision

The provision is raised for the rehabilitation of waste disposal site to its original state once the site has reached the end of the useful life.

Leave pay

The leave pay provision is accrued at the conditions of employment rate and is accumulated to a maximum of 48 days per employee.

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Figures in Rand	2017	2016
17. Long term loan		
DBSA Loan		
Total liability at year end	745,846	807,822
Current portion of long term loan	(68,879)	(61,976)
Long term portion of loan	676,967	745,846
The municipality acquired a loan from the Development bank of Southern Africa(DBSA) to fund the construction of municipal main offices. The term of the loan is 20 years. Interest charged is prime linked and varies between 10.81% and 14.4% per annum payable every half yearly.		
18. Payables from exchange transactions		
Trade payables	7,512,562	5,675,862
Direct deposits, third parties and other	820,634	1,204,451
Deposits received	26,863	25,995
Retention Liability	4,768,481	2,350,636
Credit balances-receivables from exchange transactions	312,946	926,109
	13,441,486	10,183,053
19. Taxes and transfers payable (non-exchange)		
Other payables from non-exchange transactions	649,309	490,335
The balance relates to credit balances in property rates and taxes.		
20. Consumer deposits		
Electricity	165,705	164,487
21. Revenue		
Service charges	13,770,776	13,223,022
Rental of facilities and equipment	970,172	978,470
Licences and permits	828,320	917,124
Other income	546,556	2,096,769
Interest received - investment	1,428,216	1,655,259
Property rates	13,560,777	13,771,480
Property rates - penalties imposed	2,056,008	2,176,977
Government grants & subsidies	49,021,216	47,868,825
Fines, Penalties and Forfeits	355,702	445,371
	82,537,743	83,133,297
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	13,770,776	13,223,022
Rental of facilities and equipment	970,172	978,470
Licences and permits	828,320	917,124
Sundry income	588,149	2,748,659
Interest received - investment	1,428,216	1,655,259
	17,585,633	19,522,534

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Financial Statements for the year ended 30 June, 2017

Notes to the Financial Statements

Figures in Rand	2017	2016
21. Revenue (continued)		
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	13,560,777	13,771,480
Property rates - penalties imposed	2,056,008	2,176,977
Transfer revenue		
Government grants & subsidies	49,021,216	47,868,825
Fines, Penalties and Forfeits	355,702	445,371
	64,993,703	64,262,653
22. Service charges		
Sale of electricity	12,381,323	11,825,645
Refuse removal	1,389,453	1,397,377
	13,770,776	13,223,022
23. Rental of facilities and equipment		
Premises		
Premises	957,149	969,484
Facilities and equipment		
Rental of facilities	13,023	8,986
	970,172	978,470
24. Other revenue		
Other(Transfers, Donations and Insurance claims etc)	546,556	2,096,769
The significant decrease in sundry income was due to the high base in 2015/16, the Municipality received once off amounts totalling R1 100 991. and the Department of Agriculture, however, in the 2016/17, there were no similar receipts hence the decrease in other income. In addition, there was a 75% drop in Insurance claims in 2016/17 from R168 153.85 in 2015/16. Disappointing numbers at the game and caravan park also contributed to the sharp decline of other revenue.		
The amount included in other revenue arising from exchanges of goods or services are as follows:		
Rentals	10,575	13,665
Licenses	3,199	4,331
Town Planning	32,362	38,070
Fees	67,255	58,755
Game and caravan park income	290,279	502,502
Insurance claims	41,593	173,846
Fair value adjustments	101,293	196,736
	546,556	987,905
The amount included in other revenue arising from non-exchange transactions is as follows:		
Non-exchange		
Transfers and donations	-	1,108,864

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Financial Statements for the year ended 30 June, 2017

Notes to the Financial Statements

Figures in Rand	2017	2016
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25. Other income

The 100% decrease in other revenue arising from non- exchange was due to the high base in 2015/16, the Municipality received once off amounts totalling R1 100 991.20 from COGTA and the Department of Agriculture,however,in the 2016/17, there were no similar transfers hence the decrease in other income

26. Investment revenue

Interest revenue		
Bank	1,428,216	1,655,259

27. Property rates

Rates received

Property rates	16,666,000	16,704,089
Less: Income forgone	(3,105,223)	(2,932,609)
Property rates - penalties imposed	13,560,777	13,771,480
	2,056,008	2,176,977
	15,616,785	15,948,457

Valuations

Residential	281,561,000	278,523,000
Commercial	34,795,000	36,783,000
State	145,673,000	145,673,000
Municipal	47,469,000	47,485,000
Small holdings and farms	1,646,975,000	1,648,515,000
Public Service Infrastructure	31,135,000	31,135,000
Schools(Private and State)	47,173,000	47,173,000
Land reform Property	214,006,000	214,006,000
Other (PBO, Public Worship, Vacant etc)	28,999,000	25,254,000
	2,477,786,000	2,474,547,000

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

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Notes to the Financial Statements

Figures in Rand	2017	2016
28. Government grants and subsidies		
Operating grants		
Equitable share	23,572,000	21,017,000
Finance Management Grant	1,825,000	1,800,000
EPWP Grant	1,284,000	1,030,000
Municipal Systems Improvement Grant	-	930,000
Library Grant	738,000	723,096
	27,419,000	25,500,096
Capital grants		
Municipal Infrastructure Grant	11,113,000	11,183,000
Integrated National Electrification Programme Grant	5,489,216	8,196,300
Bensdorp Sportsfield grant	-	989,429
Small Town Rehabilitation Grant	5,000,000	2,000,000
	21,602,216	22,368,729
	49,021,216	47,868,825
Conditional and Unconditional		
Conditional grants received	25,449,216	26,851,825
Unconditional grants received	23,572,000	21,017,000
	49,021,216	47,868,825
Repair of 376 houses Grant		
Balance unspent at beginning of year	903,525	903,525
Conditions still to be met - remain liabilities (see note 15).		
Municipal Systems Improvement Grant		
Current-year receipts	-	930,000
Conditions met - transferred to revenue	-	(930,000)
	-	-
Conditions still to be met - remain liabilities (see note 15).		
Municipal Assistance Programme		
Conditions still to be met - remain liabilities (see note 15).		
Municipal Infrastructure Grant		
Current-year receipts	11,113,000	11,183,000
Conditions met - transferred to revenue	(11,113,000)	(11,183,000)
	-	-
Conditions still to be met - remain liabilities (see note 15).		
MFMS Grant		
Conditions still to be met - remain liabilities (see note 15).		
Finance Management Grant		

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Notes to the Financial Statements

Figures in Rand	2017	2016
28. Government grants and subsidies (continued)		
Current-year receipts	1,825,000	1,800,000
Conditions met - transferred to revenue	(1,825,000)	(1,800,000)
<hr/>		
Conditions still to be met - remain liabilities (see note 15).		
Performance Management System Grant		
Conditions still to be met - remain liabilities (see note 15).		
LED Grant		
Conditions still to be met - remain liabilities (see note 15).		
Small Town Rehab Grant		
Current-year receipts	5,000,000	2,000,000
Conditions met - transferred to revenue	(5,000,000)	(2,000,000)
<hr/>		
Conditions still to be met - remain liabilities (see note 15).		
Library Grant		
Balance unspent at beginning of year	-	96
Current-year receipts	738,000	723,000
Conditions met - transferred to revenue	(738,000)	(723,096)
<hr/>		
Conditions still to be met - remain liabilities (see note 15).		
Sports Grant		
EPWP Grant		
Current-year receipts	1,284,000	1,030,000
Conditions met - transferred to revenue	(1,284,000)	(1,030,000)
<hr/>		
Conditions still to be met - remain liabilities (see note 15).		
Community Participation in IDP Grant		
INEP Grant		
Balance unspent at beginning of year	1,803,700	-
Current-year receipts	9,000,000	10,000,000
Conditions met - transferred to revenue	(5,489,216)	(8,196,300)
5,314,484	1,803,700	

Conditions still to be met - remain liabilities (see note 15).

Bensdorp Sportfield Grant

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Notes to the Financial Statements

Figures in Rand	2017	2016
28. Government grants and subsidies (continued)		
Balance unspent at beginning of year	-	989,429
Conditions met - transferred to revenue	-	(989,429)
	-	-

Conditions still to be met - remain liabilities (see note 15).

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act No 10 of 2014), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

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Financial Statements for the year ended 30 June, 2017

Notes to the Financial Statements

Figures in Rand	2017	2016
29. Employee related costs		
Basic	21,735,102	16,163,708
Medical aid - company contributions	708,799	582,180
UIF	168,938	134,635
SDL	267,006	202,363
Other payroll levies	4,597	4,916
Leave pay provision charge	919,988	638,015
Defined contribution plans	1,349,920	1,125,962
Travel, motor car, accommodation, subsistence and other allowances	394,419	306,442
Overtime payments	543,578	498,440
Long-service bonus	83,000	75,000
13th Cheques	1,141,668	800,328
Acting allowances	311,812	500,213
Housing benefits and allowances	81,158	42,000
Other allowance-Standby/Uniforms/Busfare	301,944	232,774
	28,011,929	21,306,976

Remuneration of Municipal Manager

Annual Remuneration	1,365,301	1,098,689
Phone allowance	16,200	21,600
	1,381,501	1,120,289

The Municipal Manager is not entitled to any other allowances or benefits, other than phone allowance and performance bonus on meeting specified requirements. In the 2016/17 financial year no bonuses were awarded.

During the current year the Municipality had four different Municipal managers namely G.P.N. Ntshangase, S.F Mtshali, Advocate N.N. Sibisi and L.C.T Nkosi.

Mrs G.P.N. Ntshangase	R887,819.55
Mr S.F. Mtshali	R74,680.01
Advocate N.N. Sibisi	R395,323.91
Mr L.C.T. Nkosi	R98,357.79

Remuneration of Acting Chief Financial Officer

Annual Remuneration	665,687	658,718
Car Allowance	9,697	2,611
Phone allowance	8,580	7,560
	683,964	668,889

The Chief Financial Officer is not entitled to any other allowances or benefits, other than phone allowance and performance bonus on meeting specified requirements. In the 2016/17 financial year no bonuses were awarded.

Remuneration of Acting Director Corporate Services

Annual Remuneration	607,344	658,718
Car Allowance	9,697	5,222
Other	7,950	7,560
	624,991	671,500

The Director Corporate Services is not entitled to any other allowances or benefits, other than phone allowance and performance bonus on meeting specified requirements. In the 2016/17 financial year no bonuses were awarded.

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Financial Statements for the year ended 30 June, 2017

Notes to the Financial Statements

Figures in Rand	2017	2016
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29. Employee related costs (continued)

During the 2016/17 year the Municipality had Mr S.B Sikhakhane and Mr T.O. Mthethwa as Corporate Services Directors.

Director of Community Services

Annual Remuneration	410,039	104,167
Acting allowance	-	136,829
Back pay	161,298	34,207
	571,337	275,203

The Director Community Services is not entitled to any other allowances or benefits, other than phone allowance and performance bonus on meeting specified requirements. In the 2016/17 financial year no bonuses were awarded.

Director Planning and Economic Development

Annual Remuneration	690,209	644,283
Back pay	9,907	16,204
Phone allowance	7,560	7,560
	707,676	668,047

The Director Planning and Economic Development is not entitled to any other allowances or benefits, other than phone allowance and performance bonus on meeting specified requirements. In the 2016/17 financial year no bonuses were awarded.

30. Remuneration of councillors

Mayor - Councillor L.Y. Mhlungu	369,188	-
Deputy Mayor	304,388	-
Speaker	299,413	-
Executive Committee Member	281,970	-
Mayor	32,990	319,716
Councillor M.A. Gama	29,868	281,637
Councillor B.M. Phenyane	29,868	281,637
Councillor T.V. Buthelezi	29,868	281,637
Councillor S.O. Nkomonde	29,868	281,637
Councillor P. Collins	-	245,934
Councillor N. Ndlovu	18,545	166,904
Councillor V.C. Ndlovu	280,464	-
Councillor T.S. Buthelezi	218,461	-
Councillor N.A. Madida	218,461	-
Councillor F.G.S Smook	218,461	-
Councillor F. Mlambo	218,461	-
Councillor M.J. Mthethwa	218,461	-
Councillor M.M. Booysens	218,461	-
Other contributions	128	166
	3,017,324	1,859,268

The Salaries, allowances and benefits of councillors of Emadlangeni Local Municipality for year under review was paid in terms of Government Gazette 39548 (Upper limits of remuneration of public office bearers)

Following the Municipal elections in August 2016, the Municipal ceased to be a plenary. The Municipality now has 6 wards, 11 councillors, a Deputy Mayor and Executive Committee.

In-kind benefits

Emadlangeni Municipality

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Notes to the Financial Statements

Figures in Rand	2017	2016
30. Remuneration of councillors (continued)		
The Mayor is part-time and is provided with an office and secretarial support at the cost of the Council		
The Mayor may has the use of Council owned vehicles for official duties		
31. Repairs and Maintenance		
Land and buildings	813,467	3,425,970
Office equipment and furniture	2,843	160,744
Machinery and equipment	250,342	99,427
Motor vehicles and plant	476,695	573,759
Road infrastructure	109,474	292,431
Electricity infrastructure	257,815	442,145
	1,910,636	4,994,476
32. Depreciation and amortisation		
Property, plant and equipment	7,144,186	5,598,928
Investment property	684,469	685,853
Intangible assets	460,358	411,773
	8,289,013	6,696,554
33. Impairment of assets		
Impairments		
Property, plant and equipment	8,072	320,269
34. Finance costs		
Non-current borrowings	85,790	92,204
Interest Cost-Defined Benefit Costs	261,000	244,000
	346,790	336,204
35. Debt impairment		
Debt impairment	1,466,906	1,006,990
36. Bulk purchases		
Electricity	11,452,059	10,904,904
37. Contracted services		
Other Contractors	4,134,563	4,177,340

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Figures in Rand	2017	2016
37. Contracted services (continued)		
Contracted services		
EPWP	1,245,890	1,754,690
Project Management Unit	39,540	65,453
Sage Pastel SLA	243,886	295,971
Infrastructure Specialist(Funding and Technical)	1,260,000	543,893
Valuation roll maintenance	130,220	65,789
Sector Plans	595,600	66,146
Emadlangeni Fire Association	65,539	-
Strategic Planning Facilitator	62,000	-
Actuary	25,439	-
MSCOA	224,068	-
Pound master	242,382	-
Employment equity plan	-	199,500
Infrastructure master plan	-	100,000
IDP/PMS	-	1,085,898
	4,134,564	4,177,340
38. General expenses		
Advertising	522,866	498,711
Auditors remuneration	1,592,038	1,439,509
Bank charges	132,568	121,835
Commission paid	82,168	54,653
Legal and professional fees	3,377,535	2,586,662
Consumables	118,765	257,831
Entertainment	34,241	69,614
Insurance	1,627,933	435,294
Community development and related social issues	1,173,391	3,111,589
Promotions and sponsorships	35,994	10,000
Motor vehicle expenses	104,677	41,892
Fuel and oil	591,536	483,564
Postage and courier	1,260	3,481
Printing and stationery	-	2,979
Protective clothing	164,724	81,281
Royalties and license fees	-	2,478
Security (Guarding of municipal property)	2,368,812	1,616,329
Software expenses	969,295	704,940
Subscriptions and membership fees	535,628	559,648
Telephone and fax	1,295,714	625,177
Training	311,528	316,882
Travel - local	1,155,068	1,038,983
Refuse	17,044	460
Water	382,692	149,628
Town Planning, IDP/PMS Unit and other	1,817,402	1,860,481
Landfill Provision	407,332	470,303
Arms and Ammunition(Game and caravan park)	5,301	-
Special programmes(MM),Traditional Leaders stipends and other	302,035	749,871
	19,127,547	17,294,075

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39. Auditors remuneration and Audit Committee		
Auditor Fees	1,394,244	1,349,811
Audit committee	197,794	89,698
	1,592,038	1,439,509

The members of the audit committee are Mr S. Majola(Chairperson),Mr A. Jordan, Mr B. Madliwa and Mr S. Vilakazi

40. Operating lease

The municipality has low cost houses and flats that are leased to the public and staff. Lease rentals are based on a percentage of the lessee's income levels or on a rate below market value. These leases are cancellable at any time by either party provided that one month's notice is given and there is no fixed lease period. The related properties are included in property, plant and equipment. Operating lease income is R520 356 (2016: R520 456)

41. Cash generated from operations

Surplus	5,371,591	13,612,732
Adjustments for:		
Depreciation and amortisation	8,289,013	6,696,554
Impairment deficit	8,072	320,269
Debt impairment	1,466,906	1,006,990
Movements in retirement benefit assets and liabilities	(446,650)	126,000
Movements in provisions	875,967	774,564
Cash payments Grap 25	(647,003)	-
Non cash transactions	(131,775)	-
Non cash deemed cost-addition	(344,406)	(196,736)
Scrapped assets	(3,688)	246,971
Abakus take on		
Receivables from exchange transactions	87,431	47,737
Consumer debtors	(47,017)	(2,328,402)
Other receivables from non-exchange transactions	(1,242,031)	(104,768)
Payables from exchange transactions	3,258,442	1,560,715
VAT	(1,135,181)	(3,237,360)
Taxes and transfers payable (non exchange)	158,974	296,491
Unspent conditional grants and receipts	3,510,790	814,175
Consumer deposits	1,218	919
liabilities movements	(1,597,374)	-
	17,433,279	19,636,851

42. Financial instruments disclosure

Categories of financial instruments

2017

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	59,599	59,599
Other receivables from non-exchange transactions	5,922,860	5,922,860
Consumer debtors	9,894,671	9,894,671
Cash and cash equivalents	14,827,721	14,827,721
Financial asset	321,611	321,611
	31,026,462	31,026,462

Financial liabilities

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. Financial instruments disclosure (continued)

	At amortised cost	Total
Trade and other payables from exchange transactions	13,441,484	13,441,484
Taxes and transfers payable (non-exchange)	649,309	649,309
Consumer deposits	165,705	165,705
Unspent conditional grants	6,218,015	6,218,015
Long term loan	745,846	745,846
	21,220,359	21,220,359

2016

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	147,030	147,030
Other receivables from non-exchange transactions	3,981,988	3,981,988
Consumer debtors	8,695,284	8,695,284
Cash and cash equivalents	21,028,481	21,028,481
Financial asset	300,000	300,000
	34,152,783	34,152,783

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	10,183,053	10,183,053
Taxes and transfers payable (non-exchange)	490,335	490,335
Consumer deposits	164,487	164,487
Unspent conditional grants	2,707,225	2,707,225
Long term loan	807,822	807,822
	14,352,922	14,352,922

43. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	9,304,558	17,806,784
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Not yet contracted for and authorised by accounting officer

• Property, plant and equipment	10,000,000	9,000,000
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Total capital commitments

Already contracted for but not provided for	9,304,558	17,806,784
Not yet contracted for and authorised by accounting officer	10,000,000	9,000,000
	19,304,558	26,806,784

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44. Contingencies

The municipality is defending various litigation and claim cases against the Municipality. The municipality's Attorney and management strongly believe that the Municipality has a strong defence. Should the litigation and claims against the municipality be successful the total estimated liability of all the cases is approximately R6 625 022.52.

45. Related parties

Remuneration of key employees and councillors is disclosed in notes 25 and 26. At the time of completion of the annual financial statements, there appears to be no related party relationship in existence at year end.

46. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including interest rate risk, interest rate risk and price risk), credit risk and liquidity risk.

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

47. Going concern

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

48. Events after the reporting date

There were no material events to report as at the date of the annual financial statements.

49. Unauthorised expenditure

Opening balance	8,019,623	1,455,515
Additions for the year	3,653,759	6,564,108
	11,673,382	8,019,623

The unauthorised operational expenditure relate to underbudgeting of depreciation.

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50. Fruitless and wasteful expenditure

Opening balance	103,068	-
Fruitless and wasteful expenditure 2016/17	89,670	103,068
	192,738	103,068

51. Irregular expenditure

Opening balance	32,430,386	16,662,980
Add: Irregular Expenditure - current year	17,977,794	15,767,406
	50,408,180	32,430,386

Details of irregular expenditure – current year

Irregular expenditure	SCM process not properly followed	47,002,070
Irregular expenditure	Extension of scope of contracts not in line with legislation	2,794,026
Irregular expenditure	Irregular expenditure SCM process partially followed	612,084
		50,408,180

52. Donation

KZN rural horse riding association

Donation	-	25,000
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Donation towards encouraging horse riding participation in the local communities

53. Reconciliation between budget and statement of financial performance

The budget is approved on an accruals basis by nature classification. The approved budget covers the period 1 July 2015 to 30 June 2016. The budget and accounting basis are the same ie both on accruals basis therefore, financial statements and budget are on comparable basis. Accordingly a reconciliation is not necessary. The financial statements are prepared using a classification on the nature of expenses in the statement of financial statements.

Net surplus per the statement of financial performance

5,371,591 13,612,732

54. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	500,000	500,000
Amount paid - current year	(500,000)	(500,000)
	-	-

Audit fees

Current year subscription / fee	1,589,439	1,349,811
Amount paid - current year	(1,583,367)	(1,349,811)
	6,072	-

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54. Additional disclosure in terms of Municipal Finance Management Act (continued)

PAYE and UIF

Opening balance	317,904	26,088
Current year subscription / fee	4,577,312	3,621,123
Amount paid - current year	(4,869,138)	(3,329,307)
	26,078	317,904

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June, 2017:

30 June, 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor T.S. Buthelezi	481	9,552	10,033

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

55. Actual operating expenditure versus budgeted operating expenditure

Refer to note 61 for the comparison of actual operating expenditure versus budgeted expenditure.

56. Actual capital expenditure versus budgeted capital expenditure

Refer to note 61 for the comparison of actual capital expenditure versus budgeted expenditure.

57. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the financial statements.

Goods and services were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations. The aforesaid deviations for 2016/17 amounted to R1 223 819.73 (2015/16 R983 054). These deviations were also reported to Council.

58. Electricity Losses

Electricity Losses units(kWh) lost in distribution

Electricity units(kWh) purchased	12,566,349	12,269,071
Electricity units(kWh) sold	(9,432,136)	(10,183,329)
	3,134,213	2,085,742

Electricity losses for the period under review is 25% (2016: 17%)

These losses are attributable chiefly to electricity within the aging and archaic electricity network infrastructure and illegal connections.

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59. Biological Assets

Emadlangeni Municipality Game Park's main purpose is the conservation of a representative system of biodiversity encompassing fauna, flora and unique scenery within the Game Park. Emadlangeni Municipality does not manage the Game Park for reproduction of biodiversity and significant sources of revenue comprise of tourism, in the form of accommodation, game viewing and hunting fees. The municipality is involved in biological transformation of fauna and flora primarily as a service to the community for the purpose of recreational activity rather than for sale.

Biological assets are not recognised in the statement of financial position as the fair value or cost of the biological assets cannot be measured reliably due to their nature. Quantities of biological assets cannot easily be ascertained as the municipality cannot keep up with births, deaths and migrations of wildlife as dictated by seasonal and other environmental factors. However, the municipality conducts aerial game counts from time to time.

As at 30 June 2017 the estimated number of biological assets are as follows: 1012 Game animals (June 2016: 891)

Movements of species 2016/17

	Column heading	Total
Opening balance	891	891
Blesbok	72	72
Bluewildebeest	5	5
Mount reedbuck	2	2
Plains zebra	17	17
Red hartebeest	1	1
Waterbuck	14	14
Eland	2	2
Impala	21	21
Giraffes	2	2
Subtotal	1,027	1,027
Warthog	(2)	(2)
Grey duiker	(6)	(6)
Nyala	(1)	(1)
Bushbuck	(2)	(2)
Kudu	(4)	(4)
	1,012	1,012

60. Non-compliance with MFMA

The Municipality did not comply with section 65(2)(e) of the MFMA

61. Budget differences

Material differences between budget and actual amounts

The material variances between the budget and is explained in the following tables.

Material variances between budget and actual

Note 61 Continued

June 2017

Year to Date

	Current year		Current year		Explanation of Significant Variances greater than 10% versus Budget	
	2017		2017			
	Act. Bal.	Adjusted budget	Variance	Var		
	Rand	Rand	Rand	Var		
Revenue						
Property Rates	13,560,777	15,032,000	(1,471,223)	(9.8)		
Property rates Penalties	2,056,008	2,798,000	(741,992)	(26.5)	Slight improvement in the collection rate resulted in the lower than budgeted penalties. This corroborated by the slight movement in the overall debtors.	
Government Grants	49,021,216	54,332,000	(5,310,784)	(9.8)		
Fines, Penalties and Forfeits	355,702	453,000	(97,298)	(21.5)	Lower than anticipated traffic fines tickets were issued resulting actual revenue being recorded. The lower visibility of traffic officers is attributed to this decrease.	
Service charges	13,770,776	16,338,000	(2,567,224)	(15.7)	Electricity sales slightly lower than anticipated. The increase in electricity losses is attributed partly to the negative variance. Possible illegal connections and aging infrastructure have been identified as contributors to the energy losses.	
Rental of facilities and equipment	970,173	1,843,000	(872,827)	(47.4)	Activities not as high as anticipated over the easter holidays and other public holidays. The overall below par performance of the Game and caravan park resulted in this negative variance.	
Licences and permits	828,319	1,427,000	(598,681)	(42.0)	Volumes lower than anticipated at Game Park for hunting and other activities during the holiday period resulting in underperformance on Licences and permits. Higher turn out had been expected during the Easter period which coincided with the bikers rally.	
Other income	588,147	4,900,000	(4,311,853)	(88.0)	Activities not as high as anticipated over the easter holidays and other public holidays. The overall below par performance of the Game and caravan park resulted dragged down the variance for other revenue. Over budgeting of other income also explain the variance.	
Interest received - investment	1,428,216	1,354,000	74,216	5.5		
	82,579,334	98,477,000	(15,897,666)	(16.1)		
Expenses						
Employee related costs	(28,011,927)	(28,091,000)	79,073	(0.3)	Relative to the previous financial year, the expansion of the staff establishment substantially resulted in the increase of employee costs compared to 2015/16. Notably, additions in Disaster, planning and economic development, IT and IDP.	

Material variances between budget and actual

Note 61 Continued

June 2017

Year to Date

	Current year 2017	Current year 2017	Variance	Explanation of Significant Variances greater than 10% versus Budget
Remuneration of councillors	(3,017,324)	(3,286,000)	268,676	(8.2)
Depreciation	(7,828,655)	(4,079,000)	(3,749,655)	91.9 The variance is due to under budgeting of this non cashflow expenditure.
Amortisation	(460,358)	(213,000)	(247,358)	116.1 For operational purposes IT licenses were budgeted for under IT and software license agreements. However, for the purpose of GRAP 31 if license software license fees are aligned with the municipal financial year end, according to GRAP 31 guidance the software license fees have to be capitalised and amortised over the license term, which is effectively one year and equivalent to the amount budgeted for under license software costs.
Impairments	(8,072)	(222,000)	213,928	(96.4) Management did not anticipate major impairments costs during the 2015/16 financial hence imp
Finance costs	(346,790)	(101,000)	(245,790)	243.4 Included is the GRAP 25 finance costs of R261 000 budgeted under General expenses.
Debt Impairment	(1,466,907)	(1,516,000)	49,093	(3.2)
Repairs and maintenance - General	(1,910,636)	(3,259,000)	1,348,364	(41.4) Due to cash flow constraints the planned renovations of municipal properties and other repairs and maintenance did not take place as scheduled.
Bulk purchases	(11,452,059)	(12,199,000)	746,941	(6.1) Within acceptable range
Contracted Services	(4,134,563)	(4,343,000)	208,437	(4.8) Within acceptable range
General Expenses	(19,127,548)	(19,725,000)	597,452	(3.0) Cost containment measures implemented due to cashflow constraints experienced.
Other	(77,764,839)	(77,034,000)	(730,839)	0.9
Gain or loss on disposal of assets and liabilities	3,688	-	3,688	-
Actuarial gains/losses	595,000	-	595,000	-
	598,688	-	598,688	-
Net surplus/ (deficit) for the year	5,413,183	21,443,000	(16,029,817)	(74.8)

Material variances between budget and actual

Note 61(Continued)

June 2017

Capital Expenditure as at 30 June 2017

Yearly	Yearly
--------	--------

Additions Rand	Original Budget Rand	Revised Budget Rand	Variance Rand	Variance %	Explanation of significant variances from budget
26,449	300,000	50,000	-	-	Extension of Municipal building projected not started as envisaged in the plans.
107,242	50,000	110,000	2,758	3	
621,464	100,000	713,829	92,365	13	New furniture planned not procured due to cashflow constraints.
-	450,000	1,110,000	1,110,000	100	Procurement of vehicles stalled due to cashflow constraints.
440,311	100,000	340,943	(99,368)	(29)	
18,262,515	24,221,700	24,221,700	5,959,185	25	The wayleave issues on farms resulted in disputes with farmer owners on where electrification infrastructure has to encroach on privately owned farms. Consequently the variance.
1,033,102	-	850,000	(183,102)	(22)	Budgeted under IT Software licence fees, however, for GRAP purposes transferred to intangible assets. For operational purposes IT licenses were budgeted for under IT and software license agreements and FMG grants. However, for the purpose of GRAP 31 if license software license fees are aligned with the municipal financial year end, according to GRAP 31 guidance the software license fees have to be capitalised and amortised over the license term, which is effectively one year and equivalent to the amount budgeted for under license software costs.
20,491,083	25,221,700	27,396,472	6,881,838	25	